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TAGS: ETRD PREL PGOV HR BK SY

SUBJECT: CROATIA ON CEFTA: SIGN AND KEEP TALKING

REF: A. STATE 197229

- 1B. SARAJEVO 3130
- 1C. SARAJEVO 3111
- 1D. ZAGREB 1400
- 1E. BELGRADE 1974

11. (SBU) In a December 11 meeting with Croatian MFA State Secretary Hido Biscevic, Ambassador urged the GOC to show

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flexibility in working to find a solution to the current disagreement with Bosnia over CEFTA, stressing Croatia's role in the region and the fact that a CEFTA without Bosnia would be a hollow agreement. Biscevic said that the fact that Serbia was prepared to sign the agreement made it easier to deal with BiH. Without revealing specifics of Croatia's position, he said he was convinced that Bosnia would part of the agreement.

12. (SBU) Econoff followed up with the same message on December 12 to Assistant Minister of Economy Igor Lucic. Lucic said that Croatia was encouraging Bosnia to sign, pointing out that Articles 23 and 24 of the CEFTA agreement contain provisions for the implementation of safeguards that Bosnia could have recourse to if it believes particular sectors were being damaged by Croatian imports. He said that the important element for Croatia is that safeguards would be applied to all CEFTA members and not only to Croatia, reflecting a view here that Bosnia does not have sufficient domestic capacity for import substitution. Lucic pointed to the fact that Croatian agricultural exports to Bosnia fell by 1 percent in 2005 and were set to continue that trend in 2006, even as current duties apply to only 15 percent of agricultural exports.

13. (SBU) Comment: Although the Ministry of Economy has led the negotiations for Croatia, PM Sanader is clearly calling the shots. Croatia so far has shown no signs that it is prepared to back down on this issue, although the GOC is clearly sensitive to the pressure being put on it and does not want to be blamed for precipitating a failure of CEFTA. Zagreb's preferred way forward appears to be to have BiH sign the agreement and then keep talking without the pressure of the Dec 19 date in the background. End Comment.

BRADTKE